

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

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U.S. POSTAL SERVICE  
WASHINGTON, DC 20268-0001

Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

INITIAL BRIEF

OF

ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

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## **INTRODUCTION**

The Alliance of the Independent Store Owners and Professionals (AISOP) is an association of approximately 3,500 small business retailers, service providers, self employed individuals, and professionals that rely on saturation mail advertising to reach their local customers. AISOP also represents approximately 250 businesses that include saturation mail providers, printers, and advertising consultants, both large and small, that provides advertising services to small business. AISOP has participated individually, or through other small business associations, in each general rate case and since 1984.

To provide a marketplace perspective on the needs of small business advertisers, and the saturation mailers that serve them, AISOP presented the direct testimony of Godfred Otuteye, Executive Vice President and Chief Operating Officer of Money Mailer, Inc. Mr. Otuteye is able to speak on behalf of Money Mailer's national coupons in the mail franchise business, its 250 franchisees, and the 30,000 customers it serves. Ninety percent of Money Mailer's customers are "mom and pop" businesses that rely on affordable saturation mail advertising, to get in business and compete.

## **AISOP'S POSITION IN THIS CASE**

AISOP supports the rates proposed by the United States Postal Service for Enhanced Carrier Route (ECR) saturation mail and the reduction in the pound rate for this type of mail. AISOP submits that the evidence submitted by Mr. Otuteye, and other evidence on this record, supports the proposed rates for the following reasons:

1. Affordable saturation mail benefits small business advertisers.
2. A broad spectrum of saturation mail providers exist to help small businesses design and deliver effective mail advertising using ERC saturation mail. Affordable saturation mail rates help these businesses promote the Postal Service. Maintenance of

reasonable and affordable rates will support continuing volume growth for the USPS and ERC saturation mail. When businesses have success with saturation mail advertising, they are likely to use the mail for other higher cost, higher value, mail products like solo mailings sent by standard mail or first class.

3. Witness Otuteye provides concrete market data showing the extreme price sensitivity of ECR saturation mail for both mailers and small business advertisers. Unlike the witnesses sponsored by postal competitors, who could not or would not provide market data on how the proposed postal rates will injure their business, Mr. Otuteye's testimony and discovery answers document the damage done to Money Mailer by the January, 1995 postal rate increase it experienced of 14.5%. Otuteye explains why this steep increase could not be passed on through higher prices to customers. This rate increase caused many Money Mailer franchisees to cut back on mailings, through market or frequency reductions, and led to the company's highest franchise failure rate ever. For the Postal Service, the January 14.5% increase resulted in a reduction of postal volumes from Money Mailer's saturation mailings of 12%!

4. AISOP supports the modest reduction of the current ECR saturation pound rate proposed by the USPS. Witness Otuteye explains how the current high pound acts like a high marginal tax rate and discourages Money Mailer franchisees from generating pound rate revenues. A lower pound rate will help the Postal Service by attracting new revenue, will help businesses like Money Mailer expand the type of pieces and businesses that appear in their envelopes, and will ultimately benefit the small business advertisers that can stretch their advertising dollars further.

5. AISOP opposes any suggestion that the Commission should:

a. Retain existing first class mail rates, or reduce the rate for the second and third ounce of first class mail, by shifting higher costs to standard mailers; or

b. That in light of favorable postal finances the revenue contribution sought in this case from any one class mail be reduced or denied. Such a result can only lead to higher, less reasonable, rate increases for ECR saturation mail at a later date.

*For the reasons outlined by witness Otuteye, and other parties who use or promote the mail for advertising, the record reflects that more modest rate increases, even if more frequent, are better for mailers and their advertising customers, than less frequent larger increases.*

#### **AFFORDABLE SATURATION MAIL RATES HELP SMALL BUSINESS ADVERTISERS**

Small businesses are more dependent on affordable saturation mail, than other media, because it is often the only type of advertising that allow businesses to reach just the consumers who live near their business. The typical neighborhood business draws on customers in a three to five mile radius from the store. Most print and electronic media cover too broad a territory, and costs too much, to be effective for these stores. Witnesses Otuteye and Buckel provide first hand experience to describe how saturation mailers work with their customers, and the USPS, to provide cost effective advertising. Otuteye, speaking on behalf of Money Mailer and its 250 franchisees, and Buckel speaking on behalf of his five free papers, describe 80% or more of their customers as small "mom and pop" retailers, sole proprietors, professionals, or tradespeople. For many of these small businesses the "cost of advertising is second only to the owner's draw as a cost of doing business." [Buckel SMC-T-1 at 6].

A variety of shared mail advertising providers stand ready to act as the advertising and marketing department for these small businesses. Witnesses Otuteye and Buckel describe how

saturation mailers help small businesses analyze their business, in terms of the geographic and demographic source of their customers, analyze the advertiser's resources and capacity, and then design, print, and handle the distribution of the business' advertising. Otuteye states, "Money Mailer does everything for its small business customer but deliver the mail". [Otuteye AISOP T-1 at 5].

The evidence of Otuteye and Buckel suggest that small businesses rely much more on saturation mail as an advertising medium than do regional businesses or national concerns. Buckel estimates that 60 to 80% of all saturation mail users are individual service providers, entrepreneurs, and small service businesses. [Buckel SMC-T-1 at 8]. Otuteye and Buckel both explain that many of their customers are individual professionals, sole proprietorships, or tradespeople who are making a living by offering services to customers. For these advertisers, their "gross sales" are they equivalent of wages. Their jobs and livelihood depend on using saturation mail to keep the customers coming, and their business alive.

#### **SATURATION MAIL IS VERY PRICE SENSITIVE**

One of the reasons saturation mail is very price sensitive is its dependence on the small business customer. Because small businesses are already paying relatively more (when measured by the percentage of advertising costs to sales), to reach their customers than their big business competitors, they cannot or will not accept and pay price increases. Witness Otuteye shows the Commission what happened to Money Mailer, its customers and franchisees, when it received the January, 1995 14.5% postal rate increase. Prior to the January, 1995 postal rate increase, Money Mailer had experienced three years of increases of 28% to 31% in its mail volumes. [AAPS/AISOP-T1-4]. When Money Mailer passed on the 14.5% postage rate increase to its franchisees, most found they could not pass on increased postage costs to their customers. Throughout 1995 and 1996 Money Mailer saw its franchisees cut back on areas mailed and

number of mailings. The company experienced the highest franchise failure rate in its history. This unreasonable, unabsorbable, increase in postal rates for saturation mail also hurt the Postal Service. The number of saturation shared mail pieces Money Mailer mailed in 1997 is 12% less than its 1994 volumes. [AAPS/AISOP T1-6 and T1-4]. As a result of the January, 1995 rate increase the Postal Service is making less postal rate revenue from Money Mailer's saturation shared mail programs today than it was in 1994.

The inability of small advertisers to pay more for advertising is only one of the reasons that ECR saturation mail is so price sensitive. Because most shared mail programs depend on a synergy of small business advertising combined with advertising from larger businesses, unreasonable increases in postal rates are likely to drive national and regional businesses out of shared mail programs. Otuteye demonstrates how national businesses demand and receive, favorable pricing from shared mail providers. In some cases the prices that must be offered to get the business of a national advertiser may be as low as one-tenth the price a small business will pay to reach just one zone. [Otuteye AAPS/AISOP-T1-1(c)].

When postal rates increase, non-postal competitors approach the big business advertisers in shared mail programs and offer better deals and deeper discounts. Because these competitors do not have the high fixed cost of postage, every postal rate increase presents a market opportunity to aggressively go after the larger participants in a shared mail program. This creates a catch twenty-two for the shared mail provider. It cannot pass on rate increases to larger customers, without fear of losing this business to non-postal competitors. If a large advertiser leaves a shared mail program, the costs formerly covered by this advertiser must be picked up by the other advertisers remaining in the program. Mailers are left with the choice of trying to recoup rate increases from their small advertisers, whose business is not aggressively courted by non-postal competitors, or absorbing the cost increases. As Otuteye explains, Money Mailer

franchisees in 1995 found they had to "swallow all or part of the increase postage rates." This resulted in many franchisees seeing their gross profits cut by almost 50% in 1995 leading some franchisees to go out of business throughout 1995 and 1996. [Otuteye AISOP-T-1 at 8]. What did this do to Money Mailer's small business customers? In many markets this left small retailers and service providers without a cost effective option for affordable delivery of their advertisements. [AAPS/AISOP-T1-7].

In this case, as in prior cases, AISOP has endeavored to "put its money where its mouth is" to prove the price sensitivity of ECR saturation mail. Witness Otuteye, and Buckel, provide reliable and measurable evidence of harm that mailers, and their advertisers, have suffered in response to prior increases in postal rates. The Association of Alternate Postal Systems (AAPS) cries out in this case, as it has done in prior cases, that "the sky is falling". AAPS asserts that the proposed rates "threaten small delivery businesses." AAPS cites the Postal Reorganization Act rate making criteria that direct the Commission to consider the "effect" of postage rates on competitors. But AAPS witnesses Green and Bradstreet fail to give the Commission any evidence of "effect" to consider. In reply to Interrogatory questions that seek factual support for AAPS's claims of harm, or data that would show private delivery pricing, witness Bradstreet responds "AAPS does not collect the data which you request, and I certainly do not have the time or resources to attempt to put together such information" [MOAA/AAPS-T1-8]. "AAPS does not have a publicly available schedule of rates." [MOAA/AAPA-T1-9]. In response to the testimony submitted by witnesses Bradstreet and Green to the Commission, AISOP can only respond "where's the beef?" There's nothing in their testimony, or interrogatory responses, to give this Commission evidence of the "effect" of existing or proposed postal rates on competitors.

Witnesses Andrew [MOAA, et al-RT-1 and Buckel, SMC-T-1] thoroughly refute the testimony of AAPS that the Postal Service proposals are "unfair" or injurious to competitors.

Witness Andrew points out that the comparison Bradstreet makes between historical first class and ECR rates leads to conclusions that are "biased and flawed". [MOAA, et al-RT-1 at 51]. Buckel provides a valuable historical look at the marketplace and reinforces the points made by AISOP, and other witnesses and associations, about the price sensitivity of saturation mail. Buckel demonstrates how the doubling of third class rates in prior years caused saturation mail volumes to plummet. Saturation solo mail has never really recovered from the high rates of the '70's. Although shared mail programs, combined with Postal Service discounts and the more cost based rates of reclassification, have helped ECR saturation mail rebound, "saturation mail today is a smaller proportion of the third class/Standard A total mail market than it was prior to the R87 rate increase." [Buckel SMC-RT-1 at 4]. Speaking from his knowledge of the marketplace, as well as his own operation of a hand delivered advertising product, Buckel firmly denounces the myth "that private delivery and newspaper preprint distribution is "vulnerable" to saturation mail competition. The vulnerability is in the other direction." [SMC-RT-1 at 5].

Witness Otuteye has submitted un-rebutted testimony to the Commission of the price sensitivity of ECR saturation mail and the real harm suffered by his company, its franchisees, and small business customers in the face of an unreasonable postal rate increase. Even with the savings of reclassification, Money Mailer volumes were 12% lower in 1997 than they were in 1994, before the January, 1995 postal rate increase.

**THE COMMISSION SHOULD REJECT ANY PROPOSAL TO SHIFT  
COSTS FROM FIRST CLASS MAILERS TO STANDARD MAILERS**

For the reasons discussed above, AISOP opposes the suggestion that standard mail rates should be increased to fund rate decreases, or a continuation of existing rates, for first class mailers. AISOP is happy to admit that it takes this position for "selfish reasons". Higher rates for standard mail translate to high rates for ECR saturation mail. This hurts AISOP's small business members and the shared mailers that serve them.



Other participants in this proceeding are not so up front about their motives. The Newspaper Association of America (NAA), argues that it "believes that the Postal Service has lost sight of its vital public service mission, and that it is more concerned with gaining market share in competitive markets through leveraging its monopoly than with serving the American public" [NNA trial brief at 1]. Although NNA, as the trade association representing newspapers with 87% of the daily circulation in America, is in a unique position to give this Commission insight about how the Postal Service's practices in pricing is "effecting" or harming competitors, NAA does not do so. Instead, NAA endorses testimony that would shift an extra .4 cents in costs per piece to all standard mailers. The extra money that would be generated by this shifting of costs would be applied to either reduce the rates for the second or third ounce of first class mail or hold the price of the first class stamp at thirty-two cents. Although NAA sponsors a witness that argues at length about the inequity of the current rate design for the second and third ounce of first class mail, NAA's real agenda is abundantly clear when it reveals that it does not much care how the extra money, to be gained by shifting costs from standard to first class, is spent. NAA equates what's good for America and "public policy" is lowering first class rates (it doesn't much matter how) and raising Standard. [NAA trial brief at 13].

NAA's arguments about "what's good for the American public", and presumably what is good for the UPSP and its customers, would be a lot easier to take if NAA came out and provided evidence about how its suggestions effect NAA members. As it stands, NAA's arguments are a lot like letting the wolf give architectural advice to the farmer building the chicken coop. As long as NAA, and other mailers, advance their proposals on behalf of the "general public", without giving the Commission data or evidence showing "what's in it for them", AISOP submits these proposals should be given little weight.

AISOP would also point to the record evidence submitted by witnesses Andrew and Haldi to rebut the rate design proposals of NAA and Major Mailers. These witnesses point out the flaws in the alternate rate design proposals submitted by NAA and Major Mailers. Witness Haldi demonstrates that the problems identified by witness Clifton in pricing structure for the second and third ounce of first class mail would be much better addressed by changing the rate design or structure of components within first class mail. Haldi discusses a variety of intra first class alternatives that would address Clifton's costing concerns. Witness Haldi nicely demonstrates that the solution advanced by NAA and Major Mailers, involving a shifting of costs from first class mail to standard mail, is equivalent to arguing two wrongs make a right. [Haldi VP/CW-RT-1 at 29] There is no evidence that first class mail is "subsidizing" standard mail. Other than their obvious bias against advertising mail, and the competitive advantage to be gained by raising the rates for advertising mailers, witness Clifton and NAA can provide no basis for "fixing" flaws in first class rate design by sticking it to standard mailers. [VP/CW-RT-1 at 30].

AISOP would join in the arguments made by the Direct Marketing Association (DMA) in its trial brief. "All of the pertinent pricing factors support a contribution factor (or mark up) for Standard (A) that is significantly below that for first class, whereas the Postal Service's proposed coverages (and mark ups) do not reflect a sufficient difference." [DMA trial brief at 13]. As DMA points out, current market conditions and the record no longer support a conclusion that first class mailers lack competitive alternatives and require special protection from the Commission. [DMA trial brief at 18] The evidence of the current marketplace suggests that first class mailers, including the household mailer, have an ever growing variety of alternatives for their personal and business communications. Witnesses Otuteye and Buckel show that the small business retailer or service provider remains largely dependent on cost effective saturation mail advertising.

## **AFFORDABLE SATURATION MAIL RATES BOOST OTHER MAIL VOLUMES**

The un rebutted testimony of witness Otuteye shows that reasonable rates for ECR saturation mail can lead to additional postal rate volumes, and revenues, in other higher value, and higher cost, postal products.

Witness Otuteye explains that Money Mailer's saturation shared mail coupon envelope is its core business. It gives local businesses a cost effective way to do mass media advertising to the trade area of their stores. This is the mail program Money Mailer's small business customer needs as a mass media advertising tool.

However, Money Mailer has developed and is promoting two other advertising programs that offer a more targeted, and thus higher value mail product. It has a "new mover" program called "Home at Last<sup>®</sup>" that targets the approximately 15% of new households that move into a community each year. It has also developing a solo direct mail program, that may use anything from first class to saturation mail.

Although these new mail programs are still in their infancy, they have generated two million dollars in postage revenue for the USPS in the last two and one-half years. The success and growth of these programs depend on the success, and cost efficiency, of Money Mailer's shared mail program. Money Mailer's customers see its shared mail coupon envelope as their primary advertising vehicle to reach the mass audience of consumers. When customers have success in the shared mail program, they are more receptive to trying other forms of direct mail. Reasonable and stable rates for saturation shared mail help Money Mailer sell the mail as a media and to sell a variety of postal products. This brings additional revenues to Money Mailer and the USPS in the form of higher value, higher rate postal products.

Witness Otuteye's testimony is reinforced by some of the business data submitted by witness Haldi for Val-Pak and Carol Wright, and witness Buckel. The key to a saturation

mailer's ability to develop new products for its business, and in turn new volumes for the USPS, remains affordable postage rates for ECR saturation mail.

**A REDUCTION IN THE PRESENT POUND RATE WILL BE BENEFICIAL  
FOR AISOP'S MAILERS, SMALL BUSINESSES, AND THE USPS**

Witness Otuteye explains how the present pound rate acts as a disincentive for Money Mailer's franchisees to sell more, or heavier pieces, into its shared mail envelopes. Otuteye describes the present pound rate as being like a high marginal tax rate. He provides examples of the marketplace disincentives that the present pound rate has on his business when it comes to attracting a greater variety of regional and national businesses, offering different sizes and types of advertising in the envelope, and making it more feasible to expand into new markets and encourage cross selling among Money Mailer's franchisees.

Witness Buckel describes how the high pound rate makes shared mail programs noncompetitive with newspapers and private delivery when it comes to attracting anything but the most light weight preprint advertising inserts. Even AAPS witness Green inadvertently offers support for saturation mailers seeking a modest reduction in the pound rate. He admitted on cross examination that extra weight does not matter in the hand delivery business and that it would be cost prohibitive for his private delivery products or customers to switch to the Postal Service because of the high incremental costs of the present pound rate. [TR.11973].

A modest reduction in the pound rate will help the Postal Service address the costing and marketplace ironies of the existing rate design. As pointed out by Buckel in his response to Interrogatories, the clear costing absurdity of the current rate design is that a mailer is charged more to mail a "single fourteen ounce piece than to mail three four ounce pieces." [AAPS/SMC-T-1-14]. This creates the marketplace irony of the current high pound rate "that the more successful a saturation mail program becomes, the greater the incentive to convert that program to private delivery." [AAPS/SMC-T1-16].

Witness Otuteye provides examples of how small businesses would benefit by a modest decrease in the pound rate. Local businesses could do larger and more varied ads. It would be more feasible for the family restaurant to mail a full page ad showing its menu. Witnesses Otuteye and Buckel both provide marketplace experience to the Commission that gives assurance that a reduction in the pound rate will not result in an overall decrease in postage revenues. Instead, better market based pricing, will lead to increases in pound rate volumes and revenues for the Postal Service. [Otuteye AISOP-T-1 at 14; AAPS/SMC-T1-19].

**A REASONABLE INCREASE "TODAY" IS BETTER THAN  
AN UNREASONABLE INCREASE TOMORROW**

There has been much talk on the record, and off, about the possibility that the Commission might take judicial notice of the current favorable state of Postal Service finances and refuse to approval all, or a portion, of the rate increase proposal sought by the USPS. If AISOP was to take the position advanced by Postal Service competitors, we would laud this as a fine idea as long as the rates held down were ours.

AISOP is admittedly selfish on this point. AISOP fears that any decision that only gives the USPS half a loaf today will lead to higher, harder to take, postal rate increases for Standard mail and saturation mailers in years to come.

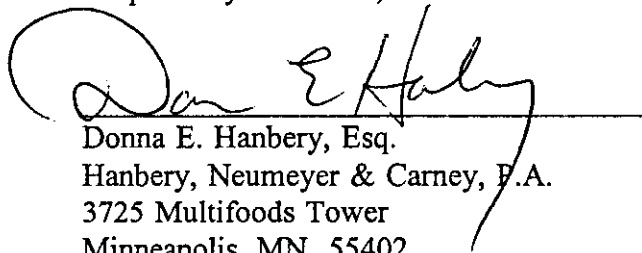
AISOP, and other mailers and associations, have exhorted the Postal Service to change its standard operating procedures when it comes to postal rate increases. Smaller increases, even if they come sooner, are better than bigger increases, even if they come further apart. There is ample evidence in this record of the price sensitivity of Standard A mail, and in particular ECR saturation mail. Witness Otuteye's testimony describes in human terms the businesses behind the numbers that suffer when mailers, and their customers, experience significant price increases. The overall rate proposal advanced by the Postal Service is something small business mailers, and their advertising customers, can bear. AISOP asks that it be approved.

## CONCLUSION

Affordable saturation mail advertising can be a lifeline that helps small business get in business and stay in business. For businesses like the independently owned pizza parlor, that depend on the shared mail coupon program to help him compete with the chain stores, to the house painter who, runs a classified ad in a shopper to generate leads for her business, mail advertising can be an essential, and critical, item of expense.

Shared mail businesses work in conjunction with the Postal Service to help small businesses get in business and compete. The rates proposed by the USPS will help small businesses and the mailers that serve them. AISOP respectfully requests that the Postal Rate Commission approve the USPS rate proposal for ECR saturation mail.

Respectfully submitted,

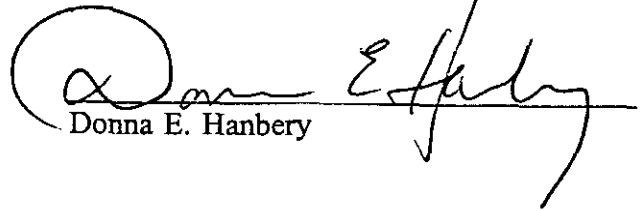
A handwritten signature in dark ink, appearing to read "Donna E. Hanbery", is written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
Donna E. Hanbery

March 30, 1998